

**NEWAYGO CONSERVATION DISTRICT
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

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NEWAYGO CONSERVATION DISTRICT

List of Principal Individuals

| <u>Board Members</u> | <u>Position</u> |
|----------------------|--------------------|
| Fred Folkema | Chairman |
| Kory Borgman | Vice-Chairman |
| Joan Kokx | Treasurer |
| Steve Hatting | Secretary |
| Jason Dunning | Director |
| Jim Squires | Associate Director |



Board of Directors
Newaygo Conservation District
Fremont, MI 49412

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities of the Newaygo Conservation District, as of and for the year ended September 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Newaygo Conservation District's managements. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the managements, as well as evaluating the overall general purpose financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Newaygo Conservation District, as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 4 and page 19 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United states of America. We have applied certain limited procedures which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Newaygo Conservation District's basic financial statements. The combining schedule of revenues and expenditures by fund is presented for purposes of additional analysis and is not a required part of the basic financial statements. It has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hendon & Slate, P.C.

Hendon & Slate, PC
Certified Public Accountants
January 21, 2009



NEWAYGO CONSERVATION DISTRICT

Management's Discussion and Analysis September 30, 2008

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the District's operations in more detail than the government-wide financial statements.

The District as a Whole

The District's net assets decreased from the 2006 audited amounts by approximately \$55,000 - or 11%. Revenues decreased approximately \$26,000 or 7.1%. Of this, federal grants (USDA/NRCS) decreased \$2,914 as the District did not receive federal grant funding during the current year, state grants (GWS & Cost Share) increased over \$29,000, and charges for services decreased over \$31,000 mostly due to the decline in tree sales in the current year. Expenses for the district also declined approximately \$23,000 mostly due to the decrease in wages from the less employees at the nursery in the current year and also a decline in nursery supplies needed in the current year.

| | <u>2008</u> | <u>2006</u> |
|---|-------------------|-------------------|
| Current Assets | \$ 207,034 | \$ 244,658 |
| Noncurrent Assets | 266,212 | 281,900 |
| Total Assets | <u>\$ 473,246</u> | <u>\$ 526,558</u> |
| Current Liabilities | \$ 29,666 | \$ 27,160 |
| Invested in Capital Assets, Net of Debt | 266,212 | 281,900 |
| Unrestricted | 177,368 | 217,498 |
| Total Net Assets | <u>\$ 443,580</u> | <u>\$ 499,398</u> |
| Governmental | | |
| <u>Activities</u> | | |
| Program Revenues | <u>2008</u> | <u>2006</u> |
| Operating Grants | \$ 69,337 | \$ 24,264 |
| Charges for Services | 257,531 | 289,492 |
| General Revenues | | |
| Federal Grants | - | 2,914 |
| State Grants | - | 29,450 |
| Reimbursements | 5,263 | 6,502 |
| Sales Tax Collected/Discounts | 1,844 | 293 |
| Interest | 1,683 | 387 |
| Miscellaneous | 4,610 | 13,174 |
| Special Item - Other Expenses | (1,128) | - |
| Total Revenues & Special Items | 339,140 | 366,476 |

Management's Discussion & Analysis (Continued)

| | | |
|---------------------------------|-------------|-------------|
| Program Expenses | | |
| Administration | 111,478 | 116,592 |
| Groundwater Stewardship Program | 56,660 | 33,974 |
| Observatory | 28,903 | 29,936 |
| Nursery | 196,777 | 236,381 |
| Total Expenses | 393,818 | 416,883 |
| Change in Net Assets | \$ (54,678) | \$ (50,407) |

Governmental Activities

Fund balance decreased approximately \$8,000 over the 2006 audited amounts. This was mostly a result of declining tree sales at the nursery and a larger net loss in income from the observatory in the current year.

The District's Funds

The District maintains only one fund. There are no component units for the District.

General Fund Budgetary Highlights

The District adopted a budget for the year ended September 30, 2008, in accordance with the guidance issued by the Michigan Department of Agriculture. This budget was amended during the year when there was sufficient information to change the estimates in the original budget. The District incurred a few overexpenditures in the budget which are reflected in the notes to the financial statement. Overall expenditures were under budget by \$69,691.

Capital Asset and Debt Administration

The District adopted a capital asset policy with a threshold of \$2,500. The District experienced a few expenses that were necessary regarding the maintenance of buildings and property. Upon inspection, the main furnace in the Office building on Rex Street was shut down and not to be used again. This happened during the spring and summer months and was dealt with prior to fall and winter cold. Competitive bids were obtained and a furnace was installed. A second problem occurred in that the plumbing in the Rex Street Building was plugged and it was determined that the clay tiles that were originally placed when the building was built had broken and tree roots had grown into the system and clogged the system. A plumber and excavator were hired to dig and lay new tiles.

Economic Factors and Next Year's Budget

The District Nursery has experienced trouble with the metal roof and the District placed money into a fund so that the roof can be fixed in 2009. We are implementing a new source of revenue by offering our Newaygo County clients a Native Plant Sale in early June 2009. This will consist of a brief program, opportunity to purchase native plants, composting barrels and rain barrels.

Contacting the District's Management

This financial report is intended to provide a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the District Administrator.

NEWAYGO CONSERVATION DISTRICT

Government Wide Statement of Net Assets September 30, 2008

| | Governmental <u>Activities</u> |
|--|-----------------------------------|
| ASSETS | |
| Current Assets | |
| Cash | \$ 156,942 |
| Investment | 3,178 |
| Prepaid Insurance | 3,015 |
| Accounts Receivable | 96 |
| Due from Other Units | 7,296 |
| Inventory | 36,507 |
| Total Current Assets | 207,034 |
| Fixed Assets | |
| Equipment | 750,796 |
| (Less) Accumulated Depreciation | (484,584) |
| Total Fixed Assets | 266,212 |
| Total Assets | \$ 473,246 |
| LIABILITIES | |
| Current Liabilities | |
| Due to Other Governments | \$ 1,638 |
| Payroll & Sales Tax Liabilities | 1,495 |
| Deferred Revenue | 16,365 |
| Customer Deposits | 6,161 |
| Accrued Absences | 4,007 |
| Total Current Liabilities | 29,666 |
| NET ASSETS | |
| Invested in Capital Assets - Net of Related Debt | 266,212 |
| Unrestricted | 177,368 |
| Total Net Assets | 443,580 |
| Total Liabilities and Net Assets | \$ 473,246 |

Notes to the Financial Statements are an integral part of this Statement.

NEWAYGO CONSERVATION DISTRICT

Gouvernement Wide Statement of Activities For the Year Ended September 30, 2008

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | Net (Expenses) |
|--|-----------------|-------------------------|---|--|
| | | <u>Charges for</u> | <u>Operating Grants and Contributions</u> | <u>Revenue and Changes In Net Assets</u> |
| <u>Governmental Activities</u> | | | | <u>Governmental Activities</u> |
| Administration | \$ 111,478 | \$ 48,460 | \$ 12,005 | \$ (51,013) |
| Groundwater Stewardship Program | 56,660 | - | 56,632 | (28) |
| Observatory | 28,903 | 2,590 | 700 | (25,613) |
| Nursery | 196,777 | 206,481 | - | 9,704 |
| Total Primary Government | 393,818 | 257,531 | 69,337 | (66,950) |
| <u>General Revenues</u> | | | | |
| State Grants | | | | - |
| Reimbursements | | | | 5,263 |
| Sales Tax Collected | | | | 1,844 |
| Interest | | | | 1,683 |
| Miscellaneous | | | | 4,610 |
| Special Item - Loss on Investment | | | | (1,128) |
| Total General Revenues & Special Items | | | | 12,272 |
| Change in Net Assets | | | | (54,678) |
| Net Assets - October 1, 2007 | | | | 498,258 |
| Net Assets - September 30, 2008 | | | | \$ 443,580 |

Notes to the Financial Statements are an integral part of this Statement.

NEWAYGO CONSERVATION DISTRICT

Governmental Fund Balance Sheet September 30, 2008

ASSETS

| | |
|----------------------------|--------------------------|
| Cash | \$ 156,942 |
| Investment | 3,178 |
| Accounts Receivable | 96 |
| Due from Other Governments | <u>7,296</u> |
| Total Assets | <u><u>\$ 167,512</u></u> |

LIABILITIES

| | |
|---------------------------------|--------------|
| Due to Other Governments | \$ 1,638 |
| Payroll & Sales Tax Liabilities | 1,495 |
| Deferred Revenue | 16,365 |
| Customer Deposits | <u>6,161</u> |
| Total Liabilities | 25,659 |

FUND BALANCE

| | |
|------------|----------------|
| Unreserved | <u>141,853</u> |
|------------|----------------|

| | |
|------------------------------------|--------------------------|
| Total Liabilities and Fund Balance | <u><u>\$ 167,512</u></u> |
|------------------------------------|--------------------------|

The Notes to the Financial Statements are an integral part of this statement.

NEWAYGO CONSERVATION DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets September 30, 2008

| | | |
|----------------------------------|----|---------|
| Total Governmental Fund Balances | \$ | 141,853 |
|----------------------------------|----|---------|

Total net assets reported for governmental activities in the statement of net assets are different from the amount reported as total governmental funds fund balance because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

| | |
|--|-------|
| Prepaid Insurance reflects amounts to be paid in a future period | 3,015 |
|--|-------|

| | |
|-----------|--------|
| Inventory | 36,507 |
|-----------|--------|

| | | |
|---------------------------------------|------------------|---------|
| Governmental Capital Assets | 750,796 | |
| Governmental Accumulated Depreciation | <u>(484,584)</u> | 266,212 |

Compensating absences (vacation pay) are recorded in the government-wide statements if they are 1) attributable to services already rendered, and 2) are not contingent on a specific event (such as illness). However, these amounts are not recorded in the governmental funds until paid.

| | |
|---------------------------|----------------|
| Accrued Vacation/Sick Pay | <u>(4,007)</u> |
|---------------------------|----------------|

| | | |
|--|------------------|----------------|
| Total Net Assets - Governmental Activities | <u><u>\$</u></u> | <u>443,580</u> |
|--|------------------|----------------|

The Notes to the Financial Statements are an integral part of this statement.

NEWAYGO CONSERVATION DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended September 30, 2008

REVENUES

| | |
|--------------------------|----------|
| Local Grants & Donations | \$ 1,100 |
| State Grants | 68,237 |
| Sales | 206,941 |
| Rentals | 50,590 |
| Interest Income | 1,683 |
| Sales Tax Collected | 1,844 |
| Reimbursements | 5,263 |
| Miscellaneous | 4,610 |
| Total Revenues | 340,268 |

EXPENDITURES

| | |
|---|------------|
| Administration | 116,724 |
| Groundwater Stewardship Program | 56,688 |
| Observatory | 17,196 |
| Nursery | 159,443 |
| Total Expenditures | 350,051 |
| Excess Revenues Over (Under) Expenditures | (9,783) |
| Other Financing Sources (Uses) | |
| Other Expenditures | (1,128) |
| Excess Revenues & Sources Over (Under) Expenditures & Uses | (10,911) |
| Fund Balance October 1, 2007 | 152,764 |
| Fund Balance September 30, 2008 | \$ 141,853 |

The Notes to the Financial Statements are an integral part of this statement.

NEWAYGO CONSERVATION DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ (10,911)

Amounts reported for governmental activities in the statement
of activities are different because:

Prepaid expenses reflects amounts that will be paid in a
future period:

| | | |
|--------------------------------|----------------|-------|
| Current Year Prepaid Insurance | \$ 3,015 | |
| Prior Year Prepaid Insurance | <u>(3,436)</u> | (421) |

| | | |
|---------------------|--|----------|
| Change in inventory | | (32,076) |
|---------------------|--|----------|

The acquisition of capital assets are reported in the governmental
fund as expenditures. However, for governmental activities those
costs are shown in the statement of net assets and allocated over
their estimated useful lives as annual depreciation expenses in the
statement of activities:

| | | |
|---|-----------------|----------|
| Capital outlay reported in governmental fund statements | 12,311 | |
| Capital outlay reported as expenses in statement of activities | <u>(125)</u> | |
| The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) assets. | 12,186 | |
| Depreciation expense reported in the statement of activities | <u>(23,758)</u> | (11,572) |

Vacation/Sick pay is not recorded as an expense in the governmental
fund until paid. However, vacation/sick pay is recorded when earned.

| | |
|---|------------|
| Vacation/Sick expense recorded in the government-wide statements. | <u>302</u> |
|---|------------|

| | |
|--|---------------------------|
| Change in Net Assets - Governmental Activities | <u><u>\$ (54,678)</u></u> |
|--|---------------------------|

The Notes to the Financial Statements are an integral part of this statement.

NEWAYGO CONSERVATION DISTRICT

Notes to the Financial Statements
September 30, 2008

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Newaygo Conservation District (the District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the Newaygo Conservation District:

A. Reporting Entity

The Newaygo Conservation District is governed by an elected six member board.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are record only when payment is due.

The District reports the following major governmental funds:

The *general fund* is the district's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Notes to the Financial Statement (Continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statement to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the district's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Tree Inventory - Tree inventory is estimated based on average cost per tree. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Supplies Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets - Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------|----------|
| Buildings | 20 Years |
| Office Equipment | 4 Years |
| Other Depreciable Items | 5 Years |

Notes to the Financial Statement (Continued)

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amount reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Prepaid Expense - Expenses that are paid in advance of the applicable fiscal year are recorded as prepaid expenses and later expensed in the applicable fiscal year.

Deferred Revenue - Income from grants is deferred and recognized over the periods to which the revenues relate.

Grants Receivable - The Newaygo Conservation District receives grant revenues based upon a reimbursement plan. Thus, expenditures are incurred then remitted to the State for reimbursement. At September 30, 2008, \$7,296 was yet to be received.

Compensated Absences (Vacation and Sick Leave) - It is the District's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation & sick pay is accrued when incurred in the government-wide financial statements.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are being adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end. The District follows these procedures in establishing the budgetary data reflected in the financial statements.

The District begins its budgeting process in July of each year. At the July board meeting the administrator/executive director should provide a report to the board containing information required by the MDA Accounting Manual. The budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain public comments.

Prior to September 30, the budget is legally adopted.

The budget shown in these financial statements are as last amended through September 30, 2008.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the required supplemental data section of the financial statements, the District's actual expenditures and budgeted expenditures have been shown on a functional basis. The approved budget of the District was adopted on a line item level. The District does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations in Budgeted Funds - based on the functional level as reported, the District incurred expenditures that exceeded line item budgeted amounts as follows:

| | Budget Amount | Actual Expenditures | Excess Over Budget |
|--------------------|------------------|------------------------|-----------------------|
| Administration | \$ 108,020 | \$ 116,724 | \$ 8,704 |
| Observatory | 17,030 | 17,196 | 166 |
| Other Expenditures | - | 1,128 | 1,128 |

In total the District's expenditures were under budget by \$69,691.

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The District is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the District's Board of Directors in accordance with Public Act 196 of 1997 has authorized investments in bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; certificates of deposit of a bank which is a member of the Federal Deposit Insurance Corporation; or in a community foundation under PA 136 of 1921 as amended, but not the remainder of the State statutory authority as listed above.

The District's deposits are in accordance with statutory authority. All deposits are held at Choice One Bank and carried at cost. The District holds the accounts in its own name. Of the bank balance of \$174,019 the entire balance was covered by federal depository insurance.

At September 30, 2008, the cash & deposits of the District consisted of the following:

| <u>Type</u> | <u>Carrying Amount</u> | <u>Market Value</u> |
|-------------------------|----------------------------|-------------------------|
| Checking | \$ 72,889 | \$ 90,048 |
| Savings | 60,382 | 60,381 |
| Petty Cash | 81 | - |
| Certificates of Deposit | <u>23,590</u> | <u>23,590</u> |
| Total Cash & Deposits | <u>\$ 156,942</u> | <u>\$ 174,019</u> |

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - The district classifies its securities as "available for sale" and are carried in the financial statements at fair value.

The investment that the District holds is not in accordance with statutory authority.

Notes to the Financial Statements (Continued)

Cost and fair value of available-for-sale equity securities at September 30, 2008 is as follows:

| | Amortized <u>Cost</u> | Gross Unrealized <u>Loss</u> | <u>Fair Value</u> |
|------------------------------------|--------------------------|------------------------------------|-------------------|
| Available-for-sale equity security | \$ 4,306 | \$ (1,128) | \$ 3,178 |

The change in net unrealized holding gains/(losses) on available for sale equity securities in the amount of (\$1,128) has been charged to Other Financing Uses for the period ended September 30, 2008.

NOTE D ACCOUNTS RECEIVABLE

At September 30, 2008 accounts receivable consisted of the following:

| | Accounts <u>Receivable</u> | Due from Other <u>Governments</u> | <u>Total</u> |
|--------------------|-------------------------------|---|-----------------|
| Due from Customers | \$ 96 | \$ - | \$ 96 |
| Due from State | - | 7,296 | 7,296 |
| Total | <u>\$ 96</u> | <u>\$ 7,296</u> | <u>\$ 7,392</u> |

NOTE E CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|---|----------------------|--------------------|-------------|-------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 69,400 | \$ - | \$ - | \$ 69,400 |
| Capital Assets Being Depreciated | | | | |
| Equipment | 91,024 | 6,015 | - | 97,039 |
| Land Improvements | - | 6,171 | - | 6,171 |
| Vehicles | 6,000 | - | - | 6,000 |
| Buildings & Improvements | 572,186 | - | - | 572,186 |
| Subtotal | 669,210 | 12,186 | - | 681,396 |
| Less Accumulated Depreciation for: | | | | |
| Equipment | 69,990 | 5,804 | - | 75,794 |
| Land Improvements | - | 103 | - | 103 |
| Vehicles | 1,900 | 1,200 | - | 3,100 |
| Buildings & Improvements | 388,936 | 16,651 | - | 405,587 |
| Subtotal | 460,826 | 23,758 | - | 484,584 |
| Net Capital Assets Being Depreciated | 208,384 | (11,572) | - | 196,812 |
| Total Governmental Activities Capital Capital Assets - Net of Depreciation | <u>\$ 277,784</u> | <u>\$ (11,572)</u> | <u>\$ -</u> | <u>\$ 266,212</u> |

Notes to the Financial Statements (Continued)

Depreciation expense was charged to programs of the primary government as follows:

| | |
|-------------------------------|------------------|
| Governmental Activities | |
| Administration | \$ 7,054 |
| Observatory | 11,700 |
| Nursery | <u>5,004</u> |
| Total Governmental Activities | <u>\$ 23,758</u> |

NOTE F RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

NOTE G RETIREMENT PLAN

Description of Plan and Plan Assets - The District is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: Normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended September 30, 2007.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report the includes financial statements and required supplementary information for notes to the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, MI 48917-9755.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the District's personnel policy, which requires employees to contribute at a rate of 2% to the plan. The District is required to contribute at an actuarially determined rate; the rate was 4.26 percent as of December 31, 2007.

Notes to the Financial Statements (Continued)

Annual Pension Cost - During the fiscal year ended September 30, 2008, the District's contributions totaling \$1,904 were made in accordance with contribution requirements. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increase of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

GASB 25 and GASB 27 Information - The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the September 30, 2007 actuarial valuations. The entry age normal actuarial method was used to determine the entries at disclosure.

| <u>GASB 25 Information</u> | As of 12/31/2007 |
|---|---------------------|
| Actuarial Accrued Liability | |
| Retirees and beneficiaries currently receiving benefits | \$ - |
| Terminated employees not yet receiving benefits | 32,026 |
| Non-vested terminated employees | 4,772 |
| Current Employees | |
| Accumulated employee contributions including | |
| allocated investment income | 6,634 |
| Employer Financed | 29,523 |
| Total Actuarial Accrued Liability (b) | 72,955 |
| Net Assets Available for Benefits at Actuarial Value | |
| (Market Value is \$78,464) (a) | 77,559 |
| Unfunded (Over funded) Actuarial Accrued Liability | \$ (4,604) |

GASB 27 Information

| | |
|--|----------|
| Fiscal Year Beginning | 7/1/2009 |
| Annual Required Contribution (ARC) | 4,332 |
| Amortized Factor Used (underfunded liabilities - 28 years) | 0.055889 |
| Amortized Factor Used (overfunded liabilities - 10 years) | 0.119963 |

Notes to the Financial Statements (Continued)

| Trend Information | | | |
|---------------------|---------------------------|-------------------------------|------------------------|
| Fiscal Period Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
| December 31, 2005 | \$ 1,761 | 100% | - |
| December 31, 2006 | 2,591 | 100% | - |
| December 31, 2007 | 2,099 | 100% | - |

| Schedule of Funding Progress (Dollars in Millions) | | | | | | |
|--|-------------------------------|---------------------------------------|----------------------------------|--------------------|---------------------|--|
| Actuarial Valuation 12/31 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded (Over) AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL As a % of Covered Payroll ((b-a)/c) |
| 2001 | \$ 35,773 | \$ 18,524 | \$ (17,249) | 193% | \$ 51,964 | -33.19% |
| 2002 | 41,212 | 24,562 | (16,650) | 168% | 78,717 | -21.15% |
| 2003 | 46,924 | 36,431 | (10,493) | 129% | 95,132 | -11.03% |
| 2004 | 52,244 | 34,280 | (17,964) | 152% | 53,347 | -33.67% |
| 2005 | 58,873 | 40,621 | (18,252) | 145% | 53,560 | -34.08% |
| 2006 | 68,072 | 55,465 | (12,607) | 123% | 91,039 | -13.85% |
| 2007 | 77,559 | 72,955 | (4,604) | 106% | 101,791 | -4.52% |

NEWAYGO CONSERVATION DISTRICT

Budgetary Comparison Schedule - Budget and Actual For the Year Ended September 30, 2008

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance With Final Budget</u> |
|---|-------------------------|-------------------|-------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Local Grants & Donations | \$ 5,000 | \$ 5,000 | \$ 1,100 | \$ (3,900) |
| State Grants | 61,605 | 61,605 | 68,237 | 6,632 |
| Sales | 268,000 | 268,000 | 206,941 | (61,059) |
| Rentals | 49,255 | 49,255 | 50,590 | 1,335 |
| Interest Income | 525 | 525 | 1,683 | 1,158 |
| Sales Tax Collected | 2,500 | 2,500 | 1,844 | (656) |
| Reimbursements | 2,000 | 2,000 | 5,263 | 3,263 |
| Miscellaneous | 15,000 | 15,000 | 4,610 | (10,390) |
| Total Revenues | 403,885 | 403,885 | 340,268 | (63,617) |
| Expenditures | | | | |
| Administration | 108,020 | 108,020 | 116,724 | (8,704) |
| Groundwater Stewardship Program | 58,000 | 58,000 | 56,688 | 1,312 |
| Observatory | 17,030 | 17,030 | 17,196 | (166) |
| Nursery | 236,692 | 236,692 | 159,443 | 77,249 |
| Total Expenditures | 419,742 | 419,742 | 350,051 | 69,691 |
| Excess Revenues Over (Under) Expenditures | (15,857) | (15,857) | (9,783) | 6,074 |
| Other Financing Sources (Uses) | | | | |
| Other Expenditures | - | - | (1,128) | (1,128) |
| Net Change in Fund Balance | (15,857) | (15,857) | (10,911) | 4,946 |
| Fund Balance - Beginning | 152,764 | 152,764 | 152,764 | - |
| Fund Balance - Ending | <u>\$ 136,907</u> | <u>\$ 136,907</u> | <u>\$ 141,853</u> | <u>\$ 4,946</u> |

The Notes to the Financial Statements are an integral part of this statement.

NEWAYGO CONSERVATION DISTRICT

Schedule of Revenues and Expenditures by Fund For the Year Ended September 30, 2008

| | <u>Administration</u> | <u>Groundwater Stewardship</u> | <u>Observatory</u> | <u>Nursery</u> | <u>Total</u> |
|---|-----------------------|------------------------------------|--------------------|------------------|--------------------|
| <u>Revenues</u> | | | | | |
| Local Grants & Donations | 400 | - | 700 | - | 1,100 |
| State Grants | 11,605 | 56,632 | - | - | 68,237 |
| Sales | 460 | - | - | 206,481 | 206,941 |
| Rentals | 48,000 | - | 2,590 | - | 50,590 |
| Interest Income | 1,442 | 241 | - | - | 1,683 |
| Sales Tax Collected | 1,844 | - | - | - | 1,844 |
| Reimbursements | 4,475 | - | - | 788 | 5,263 |
| Miscellaneous | 1,331 | - | 421 | 2,858 | 4,610 |
| Total Revenues | 69,557 | 56,873 | 3,711 | 210,127 | 340,268 |
| <u>Expenditures</u> | | | | | |
| Salaries & Wages | 41,527 | 34,143 | 213 | 86,030 | 161,913 |
| Payroll Tax Expense | 5,366 | 3,773 | - | 13,845 | 22,984 |
| Fringe Benefits | 16,603 | 3,618 | - | 11,749 | 31,970 |
| Mileage Reimbursement | 1,374 | 2,181 | 92 | 521 | 4,168 |
| Meetings & Trainings | 4,828 | 125 | - | 427 | 5,380 |
| Supplies | 4,881 | 494 | 1,175 | 33,390 | 39,940 |
| Telephone | 916 | 360 | 385 | 1,474 | 3,135 |
| Utilities | 7,370 | - | 961 | 3,964 | 12,295 |
| Capital Outlay | 6,140 | - | - | - | 6,140 |
| Legal & Accounting | 9,668 | - | - | - | 9,668 |
| Fees | 2,193 | 20 | 47 | 159 | 2,419 |
| Contractual Services | 4,548 | 4,475 | 12,293 | 441 | 21,757 |
| Vehicle Expense | - | - | - | 2,353 | 2,353 |
| Repairs & Maintenance | 8,347 | - | - | 2,473 | 10,820 |
| Insurance | 725 | - | 1,307 | 1,911 | 3,943 |
| Miscellaneous | 2,238 | 7,499 | 723 | 706 | 11,166 |
| Total Expenditures | 116,724 | 56,688 | 17,196 | 159,443 | 350,051 |
| Excess Revenues over Expenditures | (47,167) | 185 | (13,485) | 50,684 | (9,783) |
| Other Financing Sources (Uses) | | | | | |
| Other Expenditures | (1,128) | - | - | - | (1,128) |
| Excess Revenues & Sources Over (Under) Expenditures & Uses | <u>\$ (48,295)</u> | <u>\$ 185</u> | <u>\$ (13,485)</u> | <u>\$ 50,684</u> | <u>\$ (10,911)</u> |

The Notes to the Financial Statements are an integral part of this statement.



January 21, 2009

To the board of directors
Newaygo Conservation District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newaygo Conservation District for the year ended September 30, 2008, and have issued our report thereon dated January 21, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 6, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 6, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Newaygo Conservation District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the cost of trees in the tree inventory is based on average cost.

Management's estimate of the depreciation expense on fixed assets is based on the straight-line method over the useful life of the assets.

Management's estimate of compensated absences is based on the number of years employed and the hours worked by each employee for vacation hours, and 2 hours per pay period for sick time.

Management's estimate of the retirement expense is based on the entry age normal cost funding method. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

We evaluated the key factors and assumptions used to develop the compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.



The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the investment in equity securities is not in accordance with statutory authority in Note C to the financial statements. The investment is carried at fair value and the related unrealized gains/losses are reported in Other Financing Sources (Uses) section of the Statement of Revenues, Expenditures, and Changes in Fund Balance and as a Special Item – Loss on Investment in the Statement of Net Assets.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 21, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Budgets – The District incurred actual expenditures in excess of appropriations for administrative, observatory and other expenditures. See note B in the financial statements.

The District has a very good process of monitoring the budget to actual amounts on a line item basis; however, these reports are not used to properly amend the general appropriations act. The original approved budget (the general appropriations act) is maintained by the District on the Budget Worksheet and is provided to the Board monthly along with the line item detail. The Board approves amendments to the budget periodically during the year. These amendments are based upon the detail reports, but there are not amendments reflected in the Budget Worksheet. Therefore, we recommend that the Budget Worksheet be expanded to include the following columns following the Proposed Budget Column (the general appropriations act): Budget Amendments (Board approved), Amended Budget (the general appropriations act plus or minus Board approved budget amendments), and actual year to date revenues and expenditures (by the same program level as currently presented). We believe that these additional columns will assist the Board in making informed decisions regarding the operations

of the District and assist the District from expending more than the approved budget (including amendments). We would be happy to assist with developing this report.

This information is intended solely for the use of board of directors and management of Newaygo Conservation District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Hendon & Slate, P.C.

Hendon & Slate, PC



Board Members
Newaygo Conservation District
Fremont, MI 49412

In planning and performing our audit of the financial statements of Newaygo Conservation District as of and for the year ended September 30, 2008 in accordance with auditing standards generally accepted in the United States of America, we considered Newaygo Conservation District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Newaygo Conservation District's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Segregation of Duties Over Cash Collection, Invoicing, & Inventory Maintenance

Individuals responsible for maintaining the inventory and receivable records have access to the receipts and cash payments.

Segregation of Duties Over Inventory

The individual responsible for the inventory count also approves adjustments to the inventory records.

Journal Entry Documentation

There is inadequate documentation supporting the journal entries. Also, journal entries are not reviewed by an individual independent from the person initiating the transaction.



Investment Not In Accordance With Statutory Authority

The investment in equity securities does not comply with statutory requirements.

This communication is intended solely for the information and use of management, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Hendon & Slate, P.C.

Hendon & Slate, P.C.
Certified Public Accountants
January 21, 2009